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Industry Emerges From Legacy Issues: Mohan

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The industrial sector is slowly coming out of its legacy issues, and bankers must use more knowledge-based techniques while lending, said Reserve Bank of India (RBI) deputy governor Rakesh Mohan at the Confederation of Indian Industry's banking summit.

Later speaking on the sidelines to media persons, Dr Mohan said that he expected inflation to be stable and saw no pressures apart from oil prices. "I do not see any pressure except for oil. And I expect the outlook to remain stable," Dr Mohan told reporters. Inflation, measured by wholesale prices, has risen in calendar 2003 because prices of primary articles, manufactured goods and fuel products have been on the rise.

Earlier, Dr Mohan pointed out that a decade of reforms has not resulted in the kind of growth rates that one hoped for.

"In the 80s, we grew by 5.5 per cent (per annum), or thereabouts, and one hoped that with liberalisation in the 90s, this would go up. But a decade of reforms has showed that we have only done marginally better at about 6 per cent, and this needs to be improved."

Giving figures, Dr Mohan said that both agriculture and industry needs to do better while the manufacturing sector has done well in the recent past. He said that in the 1994-1997 period, agriculture grew at about 6 per cent, industry at 10.8 per cent with manufacturing at 12.2 per cent. But in the 1997-2002 phase, these sectors grew at one per cent, 4.3 per cent, and 4.2 per cent. "The good news is that since July 2002, the manufacturing sector has been growing at 6.5 per cent," Dr Mohan said, and hoped that this was perhaps an indication that a turnaround is on.

The RBI deputy governor also drew attention to the fact that the adoption of prudential norms might have made banks risk-averse, but that the passage of the Securitisation Bill has now given them a tool to recover bad credits.

On industry financing patterns, Dr Mohan said that in the sources of funds, internal accruals were going higher to about 60 per cent, or thereabouts, and resultantly, the debt:equity ratio of firms has been going down. He said that newer sources of funds are seen emerging — new private sector mutual funds, insurance companies and venture capital funds - though the last mentioned has been more talked about with reference to the information technology sector. The fact that household savings has gone up to about 25 per cent of GDP (in 2001) from 23 per cent of GDP since the beginning of the 90s was another indicator that resources for investments was no more an issue as far as industry is concerned.

So far as the small-scale sector goes, Dr Mohan said that there was a case for setting up consultancies to advise smaller firms on their businesses, more so by roping competent ex-bankers. Dr Mohan said the government's gross market borrowing target this year would not cause any problems for the central bank. “It's an absolutely normal borrowing programme, just like it was last year, so I don't see any difficulty at all.”